

Message Text

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17

ACTION AF-06

INFO OCT-01 EUR-12 EA-07 IO-10 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 2935

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMEMBASSY GABORONE

AMCONSUL JOHANNESBURG

AMEMBASSY LISBON

AMCONSUL LOURENCO MARQUES

AMCOSNUL LUANDA

AMEMBASSY LONDON

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY ZURICH

USDEL MTN GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L PRETORIA 3967

E.O. 11652: GDS

TAGS: SF, EGEN, EFIN

SUBJECT: ANTI-INFLATION CAMPAIGN

REF: PRETORIA 3847

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BEGIN SUMMARY. ANTI-INFLATION CAMPAIGN (REFTEL) IS A SERIOUS EFFORT TO MODERATE PRICE RISES, WHICH ARE EXPECTED TO SPEED UP AS A RESULT OF

THE SEPTEMBER DEVALUATION. WE BELIEVE THAT THE CHANGED STRATEGIC SITUATION ON THE BORDERS WITH MOZAMBIQUE AND ANGOLA CAUSED THE SAG TO GO FOR GROWTH, STRONGER DEFENSE, AND GREATER INDUSTRIAL INDEPENDENCE, IN SPITE OF THE RISK TO THE BALANCE OF PAYMENTS. REDUCED GOLD PRICE AND THE LACK OF FAST RECOVERY IN THE INDUSTRIAL COUNTRIES FORCED DEVALUATION, WHICH HAS PRODUCED PROSPECT OF ACCELERATING INFLA-

TION. ANTI-INFLATION CAMPAIGN, DESIGNED TO MODERATE BUT NOT EXPECTED TO CURE INFLATION, INCLUDES CONCRETE COMMITMENTS FROM THE PRIVATE SECTOR, LESS SPECIFIC ONES FROM THE GOVERNMENT. CAMPAIGN INCLUDES SIGNIFICANT MEASURES FOR BETTER USE OF BLACK LABOR AND EXEMPTION OF LOW PAID BLACKS FROM LIMITS TO WAGE INCREASES. THERE IS NEVERTHELESS A DANGER THAT INFLATION WILL FEED BLACK RESENTMENT AND MULTIPLY UNREST. END SUMMARY.

1. THE CAMPAIGN LAUNCHED OCTOBER 7 (REFTEL) IS A SERIOUS EFFORT TO STEM THE INFLATIONARY FORCES THAT HAVE PLAGUED THE ECONOMY IN THE 1970'S. CONSUMER PRICES ROSE 4.1 PERCENT IN 1970, 5.7 PERCENT IN 1971, 6.5 PERCENT IN 1972, 9.5PERCENT IN 1973 AND 11.6 PERCENT IN 1974. THIS ALARMING ACCELERATION BROUGHT THE ANNUAL RATE OF INCREASE TO 18.2 PERCENT IN THE THIRD QUARTER OF 1974, AFTER WHICH THE RATE SLOWED TO 12.4 PERCENT IN THE SECOND QUARTER OF 1975 . HOPES FOR FURTHER SUCCESS WERE SHATTERED BY THE DEVALUATION OF THE RAND FROM \$1.40 TO \$1.15 IN SEPTEMBER AND ALARM OVER THE PROSPECT OF RAPIDLY ACCELERATING PRICE INCREASES HAS NOW REACHED MAJOR PROPORTIONS. WITH IMPORTS AMOUNTING TO A FOURTH OF GNP AND IMPORT DEMAND BELIEVED TO BE HIGHLY INELASTIC (PARTLY AS A RESULT OF PAST POLICIES) THERE IS INDEED REASON TO FEAR THAT THE HUGE DEVALUATION WILL PUSH INFLATION TO CLOSE TO 20 PERCENT.

2. WE BELIEVE THAT AFTER THE COUP IN PORTUGAL AND THE CHANGED STRATEGIC SITUATION ON THE BORDERS WITH ANGOLA AND MOZAMBIQUE THE SAG MADE SOME BASIC POLICY DECISIONS WITH HIGH PRICE TAGS. THESE WERE TO GO ALL OUT FOR ECONOMIC GROWTH, INCREASED AND BETTER QUALITY EMPLOYMENT FOR BLACKS, AND GREATER ECONOMIC INDEPENDENCE THROUGH SUCH MAJOR PROJECTS AS THE SASOL II COAL LIQUIFICATION PLANT AND CON-

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TINUED STRONG EFFORTS TO BRING THE RICHARDS BAY PORT PROJECT, THE SISHEN-SALDHANA PROJECT AND SIMILAR SCHEMES TO FRUITION. (THERE IS NO SIGN THAT THESE PROJECTS ARE BEING CURTAILED, DESPITE WARNINGS FROM THE GOVERNOR OF THE RESERVE BANK THAT THE COUNTRY MAY BE UNDERTAKING TOO MUCH.) THE STRATEGIC SITUATION ALSO CONVINCED THE GOVERNMENT OF THE NEED TO IMPORT MORE ARMS AND MORE COSTLY ONES (E.G. MIRAGES) AND TO INCREASE DEFENSE EXPENDITURES GENERALLY. THE ECONOMIC DANGERS IN THESE POLICIES WERE UNDOUBTEDLY FORESEEN

BUT A CONSCIOUS CHOICE WAS MADE BASED ON THE EXPECTATION THAT GOLD PRICES WOULD STAY HIGH AND THAT THERE WOULD BE A QUICK ECONOMIC RECOVERY IN THE INDUSTRIALIZED COUNTRIES. THE SAG'S CHOICE OF DEVALUATION OVER SEVER RETRENCHMENT CONFIRMS OUR BELIEF THAT THE POLITICAL LEADERSHIP STILL BELIEVES THAT A SIGNIFICANT SLOWDOWN (WHICH WOULD HIT BLACKS HARDEST) WOULD CAUSE DANGEROUS SOCIAL STRAINS AND THAT GREATER INDUSTRIAL INDEPENDENCE AND A STRONG MILITARY ESTABLISHMENT ARE STRATEGIC MUSTS WHICH CANNOT BE SACRIFICED FOR "MERE" PRICE STABILITY, HOWEVER GREAT AND GENUINE THE COUNTRY'S AND THE GOVERNMENT'S DESIRE FOR AN END TO ACCELERATING INFLATION. SEEN IN THIS LIGHT, THE ANTI-INFLATION PROGRAM IS A SERIOUS EFFORT TO AMELIORATE, BUT NOT TO CURE, A WORSENING SITUATION ON THE PRICES FRONT.

3. THE PROGRAM IS A GRAB BAG OF ALMOST ALL POSSIBLE MEASURES SHORT OF COMPULSION, WHICH THE SAG CLAIMS NOT TO BELIEVE IN AND DOES NOT IN ANY CASE HAVE THE STAFF TO ENFORCE. IT HAS THE VIRTUE OF CONTAINING SEVERAL ELEMENTS THAT ARE GOOD POLICY IN THEMSELVES, INFLATION OR NO INFLATION, AND SOME THAT WILL FURTHER ERODE APARTHEID IN THE ECONOMIC SPHERE.

4. THE ANTI-INFLATION CAMPAIGN IS ALSO NOTABLE FOR A CONTRAST BETWEEN CONCRETE UNDERTAKINGS BY BUSINESS, LABOR AND AGRICULTURE AND VAGUER AND MORE QUALIFIED UNDERTAKINGS BY GOVERNMENT. REPRESENTATIVES OF THE PRIVATE SECTOR HAVE AGREED TO ABSORB 30 PERCENT OF COST INCREASES AND THEIR PERFORMANCE WILL BE MEASURABLE AND MONITORED. GOVERNMENT UNDERTAKINGS ARE LARGELY GUARDED PROMISES TO INTENSIFY EXISTING PROGRAMS BELIEVED TO HAVE A MODERATING EFFECT ON PRICES, TO STUDY NEW INITIATIVES, AND TO IMPROVE THE PROCESS OF CONSULTATION BETWEEN GOVERNMENT AND THE PRIVATE SECTOR.

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5. ONE UNEMPHASIZED BUT IMPORTANT RESULT OF PROGRAM WILL BE TO ACCELERATE THE UPGRADING OF JOBS FOR BLACKS. COMMERCE SECRETARY STEYN, THE ARCHITECT OF THE PROGRAM, HAS TOLD US THAT HE REGARDS LOW LABOR PRODUCTIVITY AS A MAJOR DEFECT IN THE ECONOMY AND RAISING PRODUCTIVITY AS PERHAPS THE BEST HOPE FOR FIGHTING INFLATION IN THE LONG RUN. THE PROGRAM THUS INCLUDES RELAXATION OF JOB RESERVATION, MEASURES TO PROMOTE LABOR MOBILITY, AND MORE AND BETTER TRAINING FOR BLACKS. IT IS SIGNIFICANT THAT THESE WERE AGREED TO BY A SNOW WHITE ASSEMBLY REPRESENTING ALL SECTORS OF THE ECONOMY.

6. WHILE ESSENTIALLY AN EXERCISE IN "JAWBONING", THE PROGRAM CONTAINS IMPORTANT CONCRETE ELEMENTS AND IS RECEIVING WIDESPREAD PUBLIC SUPPORT. THERE IS AN ATMOSPHERE OF CLOSING RANKS AGAINST INFLATION AND WE EXPECT GOOD COOPERATION FROM A BUSINESS COMMUNITY ACCUSTOMED

IN ANY CASE TO TAKING DIRECTION FROM PRETORIA. COOPERATION FROM THE
(WHITE) CONSTITUENT UNIONS OF THE TUCSA IS LESS CERTAIN, HOWEVER.

7. WHILE THE ANTI-INFLATION PROGRAM WAS DEVISED WITH NO INPUT FROM
THE BLACKS, THEIR INTERESTS WERE NOT IGNORED, PARTICULARLY IN THE
MEASURES TO IMPROVE PRODUCTIVITY AND THE EXEMPTION OF LOW PAID BLACKS
FROM THE LIMITS ON WAGE INCREASES. IT IS DOUBTFUL, HOWEVER, THAT
THESE REAL ADVANTAGES WILL REGISTER ON BLACK CONSCIOUSNESS IF INFLA-
TION SUBTRACTS FROM OR SEEMS TO SUBTRACT FROM THEIR REAL WAGES.
THE GOVERNMENT MAY HAVE AVOIDED THE SOCIAL CONSEQUENCES OF A
SERIOUS ECONOMIC SLOWDOWN BUT IT STILL HAS TO FACE THE CONSEQUENCES
OF ACCELERATING INFLATION, WHICH COULD IN THE END BE JUST AS
SERIOUS.
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